

ARCIS CORPORATION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Arcis changed its year-end to December 31 from March 31, effective the December 31, 1999 year-end. The following analysis contains unaudited consolidated results for the year ended December 31, 1999, which are intended for comparative purposes due to the shorter audited nine month period created by the change in year-end. This management's discussion and analysis should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2000, and as at and for the nine months ended December 31, 1999.

CONSOLIDATED OVERVIEW

| | Year Ended December 31, 2000 (audited) | Year Ended December 31, 1999 (unaudited) | Nine Months Ended December 31, 1999 (audited) |
|--|---|---|--|
| (\$thousands) | | | |
| Gross revenue | 80,390 | 44,021 | 32,822 |
| Net income (loss) | 4,354 | (5,013) | (2,728) |
| Cash from operations | 16,763 | 1,081 | (420) |
| Capital expenditures ⁽¹⁾ | 2,419 | 1,944 | 1,902 |
| Data library expenditures ⁽²⁾ | 15,805 | 5,510 | 4,234 |

⁽¹⁾ Including non-cash portion of capital expenditures (year ended December 31, 2000 - \$96,000; nine months and year ended December 31, 1999 - \$914,000)

⁽²⁾ Including accumulated costs incurred on seismic data library surveys not yet completed where a third party acquired the seismic data on behalf of Arcis and the participants (December 31, 2000 - \$1,029,000; December 31, 1999 - \$3,399,000)

HIGHLIGHTS

Arcis' focus on its integrated business model and the growth of its seismic data library, as well as strong commodity prices and relatively high levels of oil and gas industry capital spending have led to significant financial success in the year 2000. Some financial highlights and significant operating events during the year ended December 31, 2000 include:

- record gross revenue, net income, and cash from operations;
- the completion of four 3-D and two 2-D seismic data library surveys, which added 1,097 km² and 204 km of 3-D and 2-D data, respectively, to our library;
- issuance of 5-year, 9 percent convertible debentures for gross proceeds of \$6,634,000;
- the conversion of \$1,850,000 of outstanding convertible debentures (due to mature in February 2001) into common shares of the Corporation;
- an increase in the Corporation's operating credit facility from a maximum of \$3,000,000 to a maximum of \$10,000,000;
- the purchase of 1,872 channels of ARAM MK I geophysical acquisition equipment, 5 Mertz vibroseis units and other associated equipment previously held under lease, financed through a \$1,000,000, 8.05 percent, 2-year term reducing, revolving credit facility with the Royal Bank of Canada;
- the purchase of a 45 percent interest in HeliStaker Canada Ltd., which holds the exclusive Canada and U.S. licenses to the RTK GPS HeliStaker™ Navigator Technology; and
- the signing of an option agreement with Geo-X Systems Ltd. to purchase 2,800 channels of next generation ARAM•ARIES geophysical acquisition equipment on or before June 15, 2001.

SEGMENTED OVERVIEW

| For the Year Ended December 31, 2000 (\$thousands, audited) | Surveys | Geophysical Acquisition | Processing | Data Brokerage | Corporate | Consolidated |
|---|---------|----------------------------|------------|-------------------|-----------|--------------|
| Gross revenue | 18,794 | 41,791 | 2,250 | 17,555 | -- | 80,390 |
| Net revenue ⁽¹⁾ | 18,794 | 20,495 | 2,250 | 17,555 | -- | 59,094 |
| Expenses | | | | | | |
| Operating – net ⁽²⁾ | -- | 16,171 | -- | 16,419 | -- | 32,590 |
| Administrative | -- | 1,571 | 3,112 | 955 | 2,108 | 7,746 |
| Interest | 145 | 185 | 4 | 7 | 554 | 895 |
| Operating results | 18,649 | 2,568 | (866) | 174 | (2,662) | 17,863 |
| Depreciation | 14 | 1,597 | 390 | 105 | 126 | 2,232 |
| Amortization of data library | 9,641 | -- | -- | -- | -- | 9,641 |
| Amortization of deferred financing costs | -- | -- | -- | -- | 46 | 46 |
| Amortization of Goodwill | -- | 199 | -- | 45 | -- | 244 |
| Equity in losses | -- | -- | -- | -- | 12 | 12 |
| Net income (loss) before taxes | 8,994 | 772 | (1,256) | 24 | (2,846) | 5,688 |
| Income tax expense | -- | -- | -- | -- | -- | 1,334 |
| Net income (loss) | 8,994 | 772 | (1,256) | 24 | (2,846) | 4,354 |

| For the Year Ended December 31, 1999 (\$thousands, unaudited) | Surveys | Geophysical Acquisition | Processing | Data Brokerage | Corporate | Consolidated |
|---|---------|----------------------------|------------|-------------------|-----------|--------------|
| Gross revenue | 1,812 | 30,990 | 1,573 | 9,646 | -- | 44,021 |
| Net revenue ⁽¹⁾ | 1,812 | 16,049 | 1,573 | 9,646 | -- | 29,080 |
| Expenses | | | | | | |
| Operating – net ⁽²⁾ | -- | 13,049 | -- | 9,139 | -- | 22,188 |
| Administrative | 13 | 1,178 | 2,339 | 656 | 1,115 | 5,301 |
| Interest | -- | 238 | -- | 14 | 358 | 610 |
| Operating results | 1,799 | 1,584 | (766) | (163) | (1,473) | 981 |
| Depreciation | 9 | 1,363 | 416 | 109 | 75 | 1,972 |
| Amortization of data library | 1,061 | -- | -- | -- | -- | 1,061 |
| Amortization of goodwill | -- | 199 | -- | -- | -- | 199 |
| Net income (loss) before the following: | 729 | 22 | (1,182) | (272) | (1,548) | (2,251) |
| Impairment of assets | -- | -- | 2,393 | 104 | 158 | 2,655 |
| Income taxes | -- | -- | -- | -- | -- | 107 |
| Net income (loss) | 729 | 22 | (3,575) | (376) | (1,706) | (5,013) |

For the Nine Months
Ended December 31,
1999

| <i>(\$thousands, audited)</i> | Surveys | Geophysical Acquisition | Processing | Data Brokerage | Corporate | Consolidated |
|-----------------------------------|---------|----------------------------|------------|-------------------|-----------|--------------|
| Gross revenue | 651 | 23,254 | 1,298 | 7,619 | -- | 32,822 |
| Net revenue ⁽¹⁾ | 651 | 10,790 | 1,298 | 7,619 | -- | 20,358 |
| Expenses | | | | | | |
| Operating – net ⁽²⁾ | -- | 9,333 | -- | 7,166 | -- | 16,499 |
| Administrative | -- | 920 | 1,781 | 430 | 764 | 3,896 |
| Interest | -- | 172 | -- | 9 | 236 | 417 |
| Operating results | 651 | 365 | (483) | 14 | (1,000) | (454) |
| Depreciation | 7 | 1,034 | 306 | 84 | 62 | 1,493 |
| Amortization of data library | 634 | -- | -- | -- | -- | 634 |
| Amortization of goodwill | -- | 149 | -- | -- | -- | 149 |
| Net income (loss) before taxes | 10 | (818) | (789) | (70) | (1,062) | (2,730) |
| Income tax recovery | -- | -- | -- | -- | -- | 2 |
| Net income (loss) | 10 | (818) | (789) | (70) | (1,062) | (2,728) |

⁽¹⁾ Net of reimbursable revenue (year ended December 31, 2000 - \$21,296,000; nine months ended December 31, 1999 - \$12,464,000; year ended December 31, 1999 - \$14,941,000).

⁽²⁾ Net of reimbursable costs (year ended December 31, 2000 - \$21,296,000; nine months ended December 31, 1999 - \$12,464,000; year ended December 31, 1999 - \$14,941,000).

ARCIS SURVEYS

Financial Results

| | Year Ended December 31, 2000 (audited) | Year Ended December 31, 1999 (unaudited) | Nine months Ended December 31, 1999 (audited) |
|------------------------------|---|---|--|
| (\$thousands) | | | |
| Pre-sale revenue | 16,137 | 1,561 | 414 |
| Re-sale revenue | 2,657 | 251 | 237 |
| Gross and net revenue | 18,794 | 1,812 | 651 |
| Expenses | | | |
| Administrative | -- | 13 | -- |
| Interest | 145 | -- | -- |
| Operating results | 18,649 | 1,799 | 651 |
| Depreciation | 14 | 9 | 7 |
| Amortization of data library | 9,641 | 1,061 | 634 |
| Financial results | 8,994 | 729 | 10 |

Financial Performance of Seismic Data Library

| | Year Ended December 31, 2000 (audited) | Year Ended December 31, 1999 (unaudited) | Nine months Ended December 31, 1999 (audited) |
|--|---|---|--|
| (\$thousands) | | | |
| Surveys completed in period | 18,175 | 2,111 | 713 |
| Implied percentage of pre-funding ⁽¹⁾ | 89% | 74% | 58% |
| Annualized return on data library ⁽²⁾ | 81% | 37% | 18% |

⁽¹⁾ Calculated as pre-sale revenue divided by surveys completed in the period.

⁽²⁾ Calculated as current period operating results divided by cumulative cost of completed seismic data library projects.

Operating Results, Revenue and Operating Costs

Arcis Surveys' operations contributed operating results of \$18,649,000 for the year ended December 31, 2000 compared to \$651,000 and \$1,799,000 for the nine months and year ended December 31, 1999, respectively. Gross revenue increased to \$18,794,000 for the year ended December 31, 2000 from \$651,000 and \$1,812,000 for the nine months and year ended December 31, 1999, respectively.

The increase in pre-sales during for the year ended December 31, 2000 resulted from the completion of the following seismic data library projects:

| Survey | Location | Size |
|---------------------------------|-----------------------------|---------------------|
| Kaybob 3-D | West Central Alberta | 529 km ² |
| Plante 3-D | West Central Alberta | 323 km ² |
| Confidential 3-D ⁽¹⁾ | West Central Alberta | 220 km ² |
| Torrington 3-D Template | Southern Alberta | 25 km ² |
| Conroy 2-D | North East British Columbia | 149 km |
| Judy Creek South 2-D | West Central Alberta | 55 km |

⁽¹⁾ Survey name remains confidential until the end of the exclusive period on April 25, 2001.

The increase in re-sales for the year ended December 31, 2000 resulted primarily from the increase in size and number of seismic data library projects available for re-sale. At December 31, 2000, the seismic data library was comprised of the following:

| | |
|------------------|-----------------------|
| 3-D seismic data | 1,162 km ² |
| 2-D seismic data | 1,179 km |

In October 2000, Arcis Surveys commenced two 3-D seismic data library projects in conjunction with joint venture agreements entered into with a third party. The agreements allow Arcis to earn a 50 percent undivided interest worth approximately \$15 million for 550 km² in aggregate area. Because a third party is acquiring the seismic data, which work was incomplete at year-end, Arcis will not record the benefit of the projects until the first and second quarters of 2001. As at December 31, 2000, all costs and advances of funds from participants were recorded as work in progress in the seismic data library and deferred survey advances, respectively, on the consolidated balance sheet.

The net book value of completed seismic data library projects increased 285 percent during the year ended December 31, 2000 compared to a 7 percent increase during the nine months ended December 31, 1999. The increase in completed projects was due primarily to:

- improved access to capital; and
- increased levels of activity in multi-client and exclusive seismic data library programs in the oil and gas industry.

Interest Expense

Interest expense was \$145,000 for the year ended December 31, 2000 compared to \$nil for both the nine months and year ended December 31, 1999. In 1999, interest expense relating to data library surveys was capitalized, whereas in 2000, this interest was expensed.

Depreciation and Amortization

Depreciation was \$14,000 for the year ended December 31, 2000 compared to \$7,000 and \$9,000 for the nine months and year ended December 31, 1999, respectively.

Amortization of the seismic data library was \$9,641,000 for the year ended December 31, 2000 compared to \$634,000 and \$1,061,000 for the nine months and year ended December 31, 1999, respectively. The increase in amortization was due primarily to the amortization taken on the six seismic data library surveys completed in 2000. Management believes the carrying value of the seismic data library at December 31, 2000 was conservative - less than one half of the estimated fair market value of \$27,000,000 determined by an independent firm registered with APPEGGA (Association of Professional Engineers, Geologists, and Geophysicists of Alberta). It is management's policy to have its seismic data library independently evaluated on an annual basis.

ARCIS GEOPHYSICAL

Financial Results

| | Year Ended December 31, 2000 (audited) | Year Ended December 31, 1999 (unaudited) | Nine Months Ended December 31, 1999 (audited) |
|--------------------------------|---|---|--|
| (\$thousands) | | | |
| Gross revenue | 41,791 | 30,990 | 23,254 |
| Net revenue ⁽¹⁾ | 20,495 | 16,049 | 10,790 |
| Expenses | | | |
| Operating – net ⁽²⁾ | 16,171 | 13,049 | 9,333 |
| Administrative | 1,571 | 1,178 | 920 |
| Interest | 185 | 238 | 172 |
| Operating results | 2,568 | 1,584 | 365 |
| Depreciation | 1,597 | 1,363 | 1,034 |
| Amortization of goodwill | 199 | 199 | 149 |
| Financial results | 772 | 22 | (818) |

⁽¹⁾ Net of reimbursable revenue (year ended December 31, 2000 - \$21,296,000; nine months ended December 31, 1999 - \$12,464,000; year ended December 31, 1999 - \$14,941,000).

⁽²⁾ Net of reimbursable costs (year ended December 31, 2000 - \$21,296,000; nine months ended December 31, 1999 - \$12,464,000; year ended December 31, 1999 - \$14,941,000).

Operating Results, Revenue and Operating Costs

Arcis' geophysical acquisition operations contributed operating results of \$2,568,000 for the year ended December 31, 2000 compared to \$365,000 and \$1,584,000 for the nine months and year ended December 31, 1999, respectively. Gross revenue increased approximately 35 percent from \$30,990,000 at December 31, 1999 to \$41,791,000 at December 31, 2000. Operating margin as a percentage of net revenue was 21 percent for the year ended December 31, 2000 compared to 14 percent and 19 percent for the nine months and year ended December 31, 1999, respectively.

Operating results in 2000 reflect the positive effects of this division's increased operational capacity and acquisition contracts with two key clients whose activities are focused on natural gas exploration. These strong results were achieved despite the generally low operating margins in the seismic field acquisition industry that persisted throughout 2000.

Administrative Expense

Administrative expense was \$1,571,000 for the year ended December 31, 2000 compared to \$920,000 and \$1,178,000 for the nine months and year ended December 31, 1999, respectively. The year-over-year increase was due primarily to this division's record levels of activity in 2000 and a bonus being paid to key field employees in Q2 2000 to assist in the retention of skilled staff for the winter season. As a percentage of gross revenue, however, administrative expense remained stable, notwithstanding the higher level of activity.

Interest Expense

Interest expense was \$185,000 for the year ended December 31, 2000 compared to \$172,000 and \$238,000 for the nine months and year ended December 31, 1999, respectively. The decrease was due primarily to management entering into certain off-balance sheet financing, which did not impact interest expense, and the repayment of long-term debt and capital leases during 2000. The decrease was offset partially by this division entering into a \$1,000,000 reducing, revolving credit facility used to finance the purchase of 1,872 channels of ARAM MK I geophysical acquisition equipment, 5 Mertz vibroseis units and other associated equipment previously held under lease.

Depreciation and Amortization

Depreciation was \$1,597,000 for the year ended December 31, 2000 compared to \$1,034,000 and \$1,363,000 for the nine months and year ended December 31, 1999, respectively. The increase was due to the purchase of certain geophysical equipment in October 1999 and the division's capital expenditures of \$1,721,000 in 2000, including the purchase of geophysical equipment held under lease.

The charge for amortization relates to the goodwill acquired on the acquisition of Sourcec Geophysical Inc. in January 1997. Goodwill is being amortized over 15 years.

ARCIS PROCESSING

Financial Results

| | Year Ended December 31, 2000 (audited) | Year Ended December 31, 1999 (unaudited) | Nine Months Ended December 31, 1999 (audited) |
|-------------------|---|---|--|
| (\$thousands) | | | |
| Gross revenue | 2,250 | 1,573 | 1,298 |
| Expenses | | | |
| Administrative | 3,112 | 2,339 | 1,781 |
| Interest | 4 | -- | -- |
| Operating results | (866) | (766) | (483) |
| Depreciation | 390 | 416 | 306 |
| Financial results | (1,256) | (1,182) | (789) |

Operating Results, Revenue and Operating Costs

Arcis Processing generated operating losses of \$866,000 for the year ended December 31, 2000 compared to losses of \$483,000 and \$766,000 for the nine months and year ended December 31, 1999, respectively. Gross revenue increased to \$2,250,000 for the year ended December 31, 2000 compared to \$1,298,000 and \$1,573,000 for the nine months and year ended December 31, 1999, respectively.

The operating losses were primarily the result of management's decision to invest in key personnel, computer hardware systems and the development of proprietary processing software in anticipation of increased activity in Q4 2000 and 2001. On a year-over-year basis, processing capacity increased approximately 500 percent. The addition of new hardware and software has improved the Corporation's efficiency and effectiveness of processing seismic data, and ability to take on large complex 3-D land and marine processing jobs.

Administrative Expense

Administrative expense was \$3,112,000 for the year ended December 31, 2000 compared to \$1,781,000 and \$2,339,000 for the nine months and year ended December 31, 1999, respectively. The increase in administrative costs were due primarily to:

- increased salary costs due to hiring additional key personnel in 2000;
- addition of certain hardware and software, which was off-balance sheet financed, impacting administrative expenses for this division; and
- administrative costs incurred to support the larger structure of this division.

These increases were offset by management's cost reduction efforts, which caused administrative expenses to decrease as a percentage of revenue.

Depreciation

Depreciation was \$390,000 for the year ended December 31, 2000 compared to \$306,000 and \$416,000 for the nine months and year ended December 31, 1999. The increase was primarily a result of the Corporation's \$538,000 investment in new hardware and software.

ARCIS DATA

Financial Results

| <i>(Thousands)</i> | Year Ended December 31, 2000 <i>(audited)</i> | Year Ended December 31, 1999 <i>(unaudited)</i> | Nine Months Ended December 31, 1999 <i>(audited)</i> |
|--------------------------|--|--|---|
| Gross revenue | 17,555 | 9,646 | 7,619 |
| Expenses | | | |
| Operating | 16,419 | 9,139 | 7,166 |
| Administrative | 955 | 656 | 430 |
| Interest | 7 | 14 | 9 |
| Operating results | 174 | (163) | 14 |
| Amortization of goodwill | 45 | -- | -- |
| Depreciation | 105 | 109 | 84 |
| Financial results | 24 | (272) | (70) |

Operating Results, Revenue and Operating Costs

Arcis Data's operations contributed operating results of \$174,000 for the year ended December 31, 2000 compared to \$14,000 and (\$163,000) for the nine months and year ended December 31, 1999, respectively. Gross revenue was \$17,555,000 for the year ended December 31, 2000 compared to \$7,619,000 and \$9,646,000 for the nine months and year ended December 31, respectively. Operating margin as a percentage of net revenue was 6 percent and 5 percent for the nine months and year ended December 31, 1999, respectively, compared to 6 percent the year ended December 31, 2000.

The division's year-over-year increase in gross revenue and operating results was primarily due to strong commodity prices and resulting increases in exploration activity by oil and gas companies, as well as the addition of key personnel in Q1 2000, which increased our sales volumes. The increase in personnel was a result of Arcis' purchase of 100 percent of the outstanding shares of 628028 Alberta Ltd. and its wholly owned subsidiary, 733537 Alberta Ltd., which comprised a significant portion of the operations of QI Consultants.

Administrative Expense

Administrative expense was \$955,000 for the year ended December 31, 2000 compared to \$430,000 and \$656,000 for the nine months and year ended December 31, 1999, respectively. The increase in administrative costs was due primarily to the addition of several key personnel in the division in 2000, partially offset by management's cost reduction efforts. As a percentage of revenue, however, administrative costs remained consistent.

Interest Expense

Interest expense was \$9,000 and \$14,000 for the nine months and year ended December 31, 1999, respectively, compared to \$7,000 for the year ended December 31, 2000. Interest expense relates to Arcis' proportionate share of a \$50,500 loan, related to its 50 percent interest in mapIT Systems Inc. ("mapIT"). Management believes that mapIT owns the largest and most comprehensive seismic line location database in Western Canada.

Depreciation and Amortization

Depreciation was \$105,000 for the year ended December 31, 2000 compared to \$84,000 and \$109,000 for the nine months and year ended December 31, 1999, respectively. Arcis' proportionate share of mapIT's seismic line location database and its proprietary seismic data management software, ENSEMBLE, has largely been expensed for accounting purposes. Management believes that ENSEMBLE provides unparalleled capabilities of tracking Western Canada's seismic data, with such variables as ownership, data attributes and sales history.

The charge for amortization relates to the goodwill acquired on the purchase of 628028 Alberta Ltd. in July 2000. This goodwill is amortized over three years.

CORPORATE

Administrative Expense

Corporate administrative expense was \$2,108,000 for the year ended December 31, 2000 compared to \$764,000 and \$1,115,000 for the nine months and year ended December 31, 1999, respectively. The increase was due primarily to the addition of several new personnel hired to accommodate the significant increase in 2000 activity. Furthermore, an increase in staffing costs was incurred to retain key personnel in an increasingly competitive job market.

Interest Expense

Interest expense at the Corporate level represents the cost of short and long-term borrowings for the Corporation as a whole, and was \$554,000 for the year ended December 31, 2000 compared to \$236,000 and \$358,000 for the nine months and year ended December 31, 1999, respectively. The increase in interest expense in 2000 was due primarily to the issuance of 5-year, 9 percent convertible debentures for gross proceeds of \$6,634,000 in June 2000. The increase caused by the debentures was partially off set by the scheduled repayment in 2000 of several loans, leases and conditional sales agreements that were outstanding in 1999.

Depreciation

Corporate depreciation was \$126,000 for the twelve months ended December 31, 2000 compared to \$62,000 and \$75,000 for the nine months and year ended December 31, 1999. The increase in depreciation expense was due primarily to capital asset expenditures relating to the renovation of the head office at the end of 1999. Of the total expenditures relating to the renovation, approximately 75 percent were paid by a tenant inducement by the building's owner.

Income Tax Expense

Income tax expense was \$1,334,000 for the year ended December 31, 2000 compared to a recovery of \$2,000 for the nine months ended December 31, 1999 and an expense of \$107,000 for the year ended December 31, 1999. At December 31, 1999, Arcis had non-capital loss carryforwards of approximately \$3,100,000, which were fully utilized in 2000, accounting for the low effective tax rate in 2000.

FINANCIAL CONDITION AND LIQUIDITY

Highlights

| <i>(\$thousands)</i> | As at and for the Year Ended December 31, 2000 | As at and for the Nine Months Ended December 31, 1999 |
|--|---|--|
| Capital expenditures ⁽¹⁾ | 2,419 | 1,902 |
| Data library expenditures ⁽²⁾ | 15,805 | 4,234 |
| Working capital (deficiency) | 19 | (2,812) |
| Deferred survey advances | 2,158 | 2,441 |
| Long-term lease inducement | 161 | 209 |
| Long-term debt & capital lease obligations | 1,286 | 2,163 |
| Long-term convertible debentures | 6,019 | 1,914 |
| Shareholders' equity | 12,568 | 5,722 |

⁽¹⁾ Including non-cash portion of capital expenditures (December 31, 2000 - \$96,000; December 31, 1999 - \$914,000;).

⁽²⁾ Including accumulated costs incurred on seismic data library surveys not yet completed where a third party acquired the seismic data on behalf of Arcis and the participants (year ended December 31, 2000 - \$1,029,000; nine months ended December 31, 1999 - \$3,399,000)

Operating Activities

Cash flow increased to \$16,763,000 in the year ended December 31, 2000 compared to (\$420,000) for the nine months ended December 31, 1999. This increase was due to:

- Arcis Surveys completing six data library surveys in 2000;
- record re-sales of data library seismic data totaling \$2,657,000;
- Arcis Geophysical generating solid operating results, partially offset by
- Arcis Processing incurring operating losses; and
- the current income tax provision.

Financing Activities

Arcis' bank indebtedness decreased to \$220,000 at December 31, 2000 from \$995,000 at December 31, 1999. The decrease was due primarily to significantly increased operating cash flows in 2000, combined with improved receivables turnover as a result of improved industry conditions.

Arcis' debt and capital lease obligation levels (excluding convertible debentures) decreased to \$3,036,000 at December 31, 2000 from \$4,045,000 at December 31, 1999. The decrease was due to scheduled debt and capital lease repayments of \$2,074,000, offset partially by a new reducing, revolving credit facility issued in October 2000 for proceeds of \$1,000,000.

Arcis' debenture levels were increased in 2000 due to the issuance of convertible debentures on June 22, 2000 for gross proceeds of \$6,575,000 followed by a further \$59,000 on December 15, 2000. This increase was partially offset by the early conversion of \$1,850,000 of outstanding convertible debentures into 819,218 common shares of the Corporation on June 20, 2000, which were due to mature on February 27, 2001.

In September 2000, the Corporation increased its operating credit facility from a maximum of \$3,000,000 to a maximum of \$10,000,000 to ensure appropriate levels of financing were available for the busy 2000-2001 winter season.

In Q4 2000, Arcis announced its intention to purchase for cancellation up to 447,500 of its common shares, representing approximately 5 percent of the 8,951,161 issued and outstanding common shares as at September 30, 2000. Pursuant to this normal course issuer bid, Arcis had purchased for cancellation a total of 169,200 common shares at a total cost of \$364,000 at December 31, 2000.

Investing Activities

Arcis increased its data library by \$15,805,000 during the year ended December 31, 2000 compared to \$4,234,000 and \$2,660,000 in the nine months and year ended December 31, 1999, respectively. The increase during the year represented:

- the completion of six seismic data library surveys, which added 1,097 km² of 3-D data and 204 km of 2-D data to Arcis' seismic data library; and
- accumulated costs incurred on seismic data library projects not yet completed where a third party acquired the seismic data on behalf of Arcis and the participants.

Arcis increased its capital assets by \$2,419,000 during the twelve months ended December 31, 2000 compared to \$1,902,000 in the nine months ended December 31, 1999. Capital asset additions during the year ended December 31, 2000 consisted primarily of geophysical equipment and processing hardware and software. A total of \$96,000 of the \$2,419,000 (nine months and year ended December 31, 1999 - \$914,000) in capital asset expenditures were non-cash.

On November 9, 2000, the Corporation purchased from Geoid Exploration Ltd. a net 45 percent interest in HeliStaker Canada Ltd. (“HeliStaker”), which began operations in August 2000. Arcis’ investment in HeliStaker is accounted for using the equity method. The equity in losses recorded by Arcis for this investment for the five months ended December 31, 2000 was a loss of \$12,000. The losses incurred were a result of the company being in the start up phase of operations as well as the elimination of profits for work performed by HeliStaker for Arcis.

On July 13, 2000, Arcis purchased, for aggregate consideration of \$571,950, 100 percent of the outstanding shares of 628028 Alberta Ltd. and its wholly owned subsidiary, which comprised a significant portion of the operations of QI Consultants. The acquisition has been recorded using the purchase method.

Liquidity

At December 31, 2000, Arcis recorded working capital of \$19,000 compared to a deficiency of \$2,812,000 at December 31, 1999. The increase in working capital was due primarily to:

- record levels of operating cash flow in 2000;
- proceeds from issuance of convertible debentures and long-term debt, partially offset by
- an increase in current taxes payable of \$1,207,000;
- investment in the data library; and
- the purchase of capital assets.

Arcis had a debt (current and long-term portions of convertible debentures, long-term debt and capital leases) to equity ratio of 0.73:1 as at December 31, 2000 compared to 1.04:1 at December 31, 1999. The improvement is directly attributable to the positive results from operations achieved in 2000. While access to capital remained limited in 2000, it is management’s intention to raise additional equity in 2001 to finance future data library surveys, acquisitions and to further increase working capital.

RISKS AND OPPORTUNITIES

Arcis provides integrated geophysical services to the oil and gas industry in Western Canada. The Corporation is, therefore, impacted by the level of capital spending by oil and gas companies, which is in turn a function of commodity prices for oil and gas. Fluctuations of energy prices generally affect the revenue and hence the profitability of Arcis.

Arcis’ business is capital intensive, requiring ongoing cash flow in order to invest in new seismic data library surveys and fund upgrades and expansions of its geophysical and processing equipment, and therefore must have a strong working capital position. Cash flow is obtained through a combination of positive funds from operations and access to capital markets. There can be no assurance that Arcis will be able to obtain additional financing, or that such financing will be on terms favorable or acceptable to Arcis. The failure to secure necessary financing could have a material adverse impact on Arcis.

The Corporation operates in a highly competitive industry where competitors, primarily foreign companies, have significantly greater resources to rely upon. Management believes that it has increased Arcis’ market share through its integrated business model, key equipment and personnel acquisitions. Arcis believes that it employs competitive technology and that the quality of its employees and their relationships with clients allows Arcis to compete effectively.

The seasonality associated with the oil and gas industry – increased activity in the winter season (November to March), decreased activity in the spring and summer seasons – creates fluctuations in Arcis' cash flow and operating results. The results are, generally, significant decreases in revenue and net income in the second and third calendar quarters with increased activity in the first and fourth calendar quarters. Arcis' results of operations may continue to be subject to this seasonality, particularly on a quarterly basis, which may affect Arcis' share price. Management believes it has reduced Arcis' susceptibility to this seasonality through its strategic positioning as an integrated geophysical services company where some of its divisions are less susceptible to activity swings associated with field operations. This was demonstrated in 2000 by profitability in the typically unprofitable second quarter.

The risk of inclement weather affects the Geophysical division. This risk is mitigated, where possible, by having clients assume or at least share the risk.

Management continues to believe that Arcis is the only Canadian public company to offer a unique complement of geophysical services to the Western Canadian energy industry. Arcis enjoys strategic advantages and operational leverage from its integration.

Arcis' data library continues to expand, and will continue to be a focus for future growth. The data library business creates opportunities to diversify Arcis' revenue base and increase profitability. This diversity creates a unique geophysical services company in that a portion of revenue and profitability will be derived from information, in the form of seismic data, rather than solely from traditional geophysical services.

OUTSTANDING SHARE DATA

| | As at March 12, 2001 (unaudited) |
|-----------------------------|-------------------------------------|
| <i>(post consolidation)</i> | |
| Basic common shares | 8,830,163 |
| Convertible securities: | |
| Options | 778,625 |
| Warrants | 775,265 |
| Convertible debentures | 2,617,910 |
| | 4,171,800 |
| Fully diluted common shares | 13,001,963 |

OUTLOOK

We are excited and optimistic about the future of Arcis. The Corporation exited the year 2000 operationally and financially stronger, having survived one of the most dramatic downturns in 1998-1999. We believe our integrated business model was one of the keys to Arcis' survival and success. Our focus will continue to be on growth, both in our ownership of seismic data and in traditional assets that support the creation of this data. In 2001 and beyond, we will:

- investigate expansion opportunities to new markets and frontiers such as Northern Canada;
- explore consolidation opportunities that fit with our business model and our focus on data; and
- pursue unique investments that leverage our current operations.

The year 2000 saw sharp increases in commodity prices due in part to a buoyant global economy, OPEC's management of worldwide oil prices and the unprecedented demand for natural gas in North America. Notwithstanding the apparent economic slowdown that we appear to be facing, industry analysts believe that high gas prices will be maintained throughout 2001. Because of our customers' focus on natural gas and Arcis' focus on data ownership in gas prone regions, we are well positioned for sustainable future growth.

Generally, oil and gas companies continue to replace their reserves through mergers and acquisitions as opposed to replacing them through the drill bit, however, industry analysts anticipate a general increase in seismic activity levels in North America in 2001. In 2000, Arcis witnessed a re-focus on exploration, and thus seismic, activities by its key customers. During the first three months of 2001, Arcis' activity levels are demonstrating strong year-over-year increases, thereby lending credence to industry analysts' expectations for 2001.

Capital markets are currently experiencing turbulent times. With the technology bubble bursting and fears of an economic slowdown, uncertainty exists with investors. While there has been renewed interest by the capital markets in old economy companies, including the oil and gas industry, companies are unsure of capital availability. We believe well run organizations with demonstrated financial success and growth will continue to attract capital despite the state of capital markets.

Arcis is well positioned to take advantage of the current industry cycle with a data library independently valued in excess of \$27,000,000, increased geophysical acquisition and data processing capacity, and a highly skilled and dedicated workforce. Notwithstanding our optimistic outlook for the oil and gas industry in 2001, we believe Arcis' integrated business model can successfully withstand the cyclical nature of the oil and gas industry.

Arcis' prospects and future results of its operations are subject to certain risks, uncertainties and assumptions. Should one or more of these risks materialize or should the assumptions prove incorrect, actual results may vary materially from those currently anticipated.

SUPPLEMENTARY INFORMATION

Quarterly Information

| Quarters Ended <i>(000s, except per share amounts) (unaudited)</i> | March 31, 2000 \$ | | June 30, 2000 \$ | | September 30, 2000 \$ | | December 31, 2000 \$ | |
|---|--------------------------------|---------|-------------------------------|--------|------------------------------------|---------|-----------------------------------|--------|
| | 1999 | \$ | 1999 | \$ | 1999 | \$ | 1999 | \$ |
| Gross revenue | 33,348 | 11,199 | 12,933 | 3,508 | 14,963 | 8,899 | 19,146 | 20,415 |
| Net income (loss) | 3,390 | (2,285) | 1,087 | (931) | 130 | (1,160) | (253) | (637) |
| Per share – basic | 0.44 | (0.36) | 0.13 | (0.16) | 0.01 | (0.16) | (0.03) | (0.09) |
| Per share – fully diluted | 0.32 | (0.36) | 0.11 | (0.16) | 0.01 | (0.16) | (0.03) | (0.09) |
| Cash flow from operations | 7,777 | 1,501 | 5,224 | (355) | 1,043 | (525) | 2,719 | 460 |
| Per share – basic | 0.96 | 0.24 | 0.65 | (0.06) | 0.12 | (0.08) | 0.30 | 0.06 |
| Per share – fully diluted | 0.76 | 0.20 | 0.51 | (0.06) | 0.10 | (0.08) | 0.22 | 0.06 |

Per share data reflects consolidation of common shares on a one (new) share for four (old) share basis, which occurred on July 25, 2000.

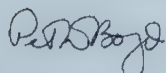
MANAGEMENT'S REPORT

To the Shareholders of Arcis Corporation

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. Both the financial and operating information presented in the annual report are consistent with that shown in the consolidated financial statements.

Management has implemented appropriate systems of internal control to provide reasonable assurance that all transactions are properly authorized, assets are safeguarded and financial records are maintained to facilitate the preparation of reliable and timely consolidated financial statements.

PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants, has been engaged to examine the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion. The Audit Committee of the Board of Directors, with a majority of its members being outside directors, has reviewed the consolidated financial statements including the notes thereto with management and PricewaterhouseCoopers LLP. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.



PETER D. BOYD
Chairman and
Chief Executive Officer



KENT E. BROWN, CA
Vice President, Finance and
Chief Financial Officer

March 9, 2001

AUDITORS' REPORT

To the Shareholders of Arcis Corporation

We have audited the consolidated balance sheets of Arcis Corporation as at December 31, 2000 and December 31, 1999 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the year ended December 31, 2000 and the nine months ended December 31, 1999. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2000 and December 31, 1999 and the results of its operations and its cash flows for the year ended December 31, 2000 and the nine months ended December 31, 1999 in accordance with Canadian generally accepted accounting principles.



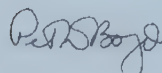
Chartered Accountants
March 9, 2001

ARCIS CORPORATION
CONSOLIDATED BALANCE SHEETS

| | December 31, 2000 \$ | December 31, 1999 \$ |
|---|----------------------------|----------------------------|
| Assets | | |
| Current assets | | |
| Cash | - | 1,190,328 |
| Accounts receivable (note 4) | 20,900,177 | 14,434,098 |
| Work-in-progress (note 5) | 2,668,600 | 876,201 |
| Prepaid expenses | 546,441 | 207,896 |
| Income taxes receivable | - | 14,156 |
| | <u>24,115,218</u> | <u>16,722,679</u> |
| Goodwill (note 8) | 2,613,263 | 2,588,638 |
| Capital assets (note 6) | 5,882,048 | 5,908,314 |
| Seismic data library (note 7) | 12,556,747 | 6,393,013 |
| Deferred financing costs (note 13) | 447,292 | - |
| Investment (note 3(b)) | 388,866 | - |
| Future income taxes (note 16) | 285,246 | 370,668 |
| | <u>46,288,680</u> | <u>31,983,312</u> |
| Liabilities | | |
| Current liabilities | | |
| Bank indebtedness (note 9) | 220,090 | 995,090 |
| Accounts payable and accrued liabilities | 18,128,998 | 16,609,234 |
| Deferred revenue | 2,578,479 | - |
| Income taxes payable | 1,221,278 | - |
| Current portion of lease inducement (note 6) | 48,345 | 48,345 |
| Current portion of capital lease obligations (note 10) | 151,260 | 178,281 |
| Current portion of long-term debt (note 11) | 1,598,997 | 1,703,663 |
| Convertible debenture payable (note 13) | 148,973 | - |
| | <u>24,096,420</u> | <u>19,534,613</u> |
| Deferred survey advances (note 12) | 2,158,197 | 2,440,572 |
| Lease inducement (note 6) | 161,150 | 209,495 |
| Capital lease obligations (note 10) | 17,069 | 131,875 |
| Long-term debt (note 11) | 1,268,610 | 2,031,107 |
| Convertible debentures (note 13) | 6,019,079 | 1,914,099 |
| | <u>33,720,525</u> | <u>26,261,761</u> |
| Shareholders' Equity | | |
| Capital stock (note 14) | 7,729,583 | 11,343,242 |
| Treasury stock (note 14) | (183,810) | - |
| Equity portion of convertible debentures (note 13) | 681,000 | 200,000 |
| Contributed surplus (note 14) | - | 43,228 |
| Retained earnings (deficit) (note 20) | 4,341,382 | (5,864,919) |
| | <u>12,568,155</u> | <u>5,721,551</u> |
| | <u>46,288,680</u> | <u>31,983,312</u> |

See accompanying notes to the consolidated financial statements

Approved by the Board of Directors



Director



Director

ARCIS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS & RETAINED EARNINGS (DEFICIT)

| | Year Ended December 31, 2000 \$ | Nine Months Ended December 31, 1999 \$ |
|---|--|--|
| Gross revenue | 80,389,920 | 32,822,205 |
| Reimbursable revenue (note 15) | (21,296,335) | (12,464,465) |
| Net revenue | 59,093,585 | 20,357,740 |
| Expenses | | |
| Operating – net of reimbursable costs (note 15) | 32,590,565 | 16,499,127 |
| Administrative | 7,746,581 | 3,895,901 |
| Depreciation | 2,232,541 | 1,493,343 |
| Amortization of seismic data library | 9,640,978 | 633,505 |
| Interest | 894,547 | 416,900 |
| Amortization of goodwill | 243,876 | 149,344 |
| Amortization of deferred financing costs | 45,905 | - |
| | 53,394,993 | 23,088,120 |
| Income (loss) before the following | 5,698,592 | (2,730,380) |
| Equity in losses of affiliated company (note 3(b)) | (11,568) | - |
| | 5,687,024 | (2,730,380) |
| Income taxes (recovery) (note 16) | | |
| Current | 1,221,278 | (2,281) |
| Future | 112,237 | - |
| | 1,333,515 | (2,281) |
| Net income (loss) | 4,353,509 | (2,728,099) |
| Deficit – Beginning of period | (5,864,919) | (3,136,820) |
| Elimination of deficit (note 20) | 5,864,919 | - |
| Repurchase of common shares (note 14) | (12,127) | - |
| Retained earnings (deficit) – End of period | 4,341,382 | (5,864,919) |
| Net income (loss) per share (note 19) | | |
| Basic | 0.51 | (0.41) |
| Fully diluted | 0.41 | (0.41) |

See accompanying notes to consolidated financial statements

ARCIS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended December 31, 2000 \$ | Nine months ended December 31, 1999 \$ |
|---|--|--|
| Cash provided by (used in) | | |
| Operating activities | | |
| Net income (loss) | 4,353,509 | (2,728,099) |
| Items not affecting cash | | |
| Depreciation | 2,232,541 | 1,493,343 |
| Amortization of seismic data library | 9,640,978 | 633,505 |
| Amortization of goodwill | 243,876 | 149,344 |
| Increase in liability component of convertible debentures | 86,111 | 49,759 |
| (Gain) loss on disposal of capital assets | 84,855 | (5,669) |
| Amortization of lease inducement | (48,345) | (12,086) |
| Amortization of deferred financing costs | 45,905 | - |
| Equity in losses of affiliate company | 11,568 | - |
| Future income taxes | 112,237 | - |
| Cash provided by operations | 16,763,235 | (419,903) |
| Net change in non-cash working capital | (1,866,817) | 2,475,204 |
| Net cash provided by operating activities | 14,896,418 | 2,055,301 |
| Financing activities | | |
| Increase in deferred financing costs | (493,198) | - |
| Decrease in bank indebtedness | (775,000) | (2,569,668) |
| Proceeds on long-term debt | 1,000,000 | - |
| Repayment of long-term debt | (1,867,163) | (419,844) |
| Proceeds from issuance of convertible debentures | 6,634,000 | - |
| Repayment of capital lease obligations | (206,507) | (276,147) |
| Normal course issuer bid | (179,701) | (100) |
| Issuance of common shares | 38,616 | 1,920,727 |
| Share issuance costs | (60,098) | (213,287) |
| Increase in shares held in treasury | (183,810) | - |
| Increase in notes receivable from employees | (14,793) | (110,641) |
| Net change in non-cash working capital | (12,394) | 12,394 |
| | 3,879,952 | (1,656,566) |
| Investing activities | | |
| Additions to seismic data library | (15,804,712) | (4,233,877) |
| Additions of capital assets | (2,322,692) | (987,996) |
| Proceeds on disposal of capital assets | 127,425 | 85,034 |
| Advances from seismic data library surveys participants | (282,375) | 2,440,572 |
| Acquisition of 628028 Alberta Ltd. | (280,825) | - |
| Investment in HeliStaker | (306,444) | - |
| Cash acquired on acquisition of 628028 Alberta Ltd. | 506,065 | - |
| Net change in non-cash working capital | (1,603,140) | 2,521,072 |
| | (19,966,698) | (175,195) |
| (Decrease) increase in cash | (1,190,328) | 223,540 |
| Cash – Beginning of period | 1,190,328 | 966,788 |
| Cash – End of period | - | 1,190,328 |
| Cash from operations per share (note 19) | | |
| Basic | 1.97 | (0.06) |
| Fully diluted | 1.55 | (0.06) |

ARCIS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2000 and December 31, 1999

1. Nature of Operations

Arcis Corporation ("Arcis") was incorporated under the Business Corporations Act (Alberta) on September 12, 1996 and its common shares began trading on The Toronto Stock Exchange on November 28, 1997. Arcis is an integrated geophysical services company that provides highly specialized seismic services including the creation and sale of new seismic data to oil and gas companies, field data acquisition, data processing and archiving, data brokerage and data management. At December 31, 1999, the Corporation changed its year-end to December 31 from March 31. The results presented are for the year ended December 31, 2000 and the nine months ended December 31, 1999.

2. Significant Accounting Policies

The consolidated financial statements of Arcis have been prepared by management in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for a period involves the use of estimates and approximations, which have been made using careful judgement. The consolidated financial statements have, in management's opinion, been prepared within reasonable limits of materiality.

These consolidated financial statements include the following policies:

Basis of consolidation

The consolidated financial statements include the accounts of Arcis and its wholly owned subsidiary, 682028 Alberta Ltd. Exploration Seismic Services Ltd. and Sourcex Geophysical Inc. ("Sourcex") were amalgamated and wound-up, respectively, into Arcis during the year ended March 31, 1999. The consolidated financial statements also include Arcis' 50% proportionate share of the assets and liabilities of mapIT Systems Inc., an incorporated joint venture. All intercompany accounts and transactions have been eliminated on consolidation.

The Corporation's 45% interest in HeliStaker Canada Ltd. has been accounted for using the equity method of accounting.

Capital assets and seismic data library

Capital assets are stated at cost less accumulated depreciation and amortization. Costs other than for the seismic data library are amortized on a straight-line basis at rates calculated to amortize the cost of the assets over their estimated useful lives.

| | |
|---|-------------|
| Geophysical equipment | 2 - 5 years |
| Computer hardware and software | 3 - 5 years |
| Vehicles | 4 years |
| Office furniture, equipment, and leasehold improvements | 2 - 7 years |

ARCIS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and December 31, 1999

Since inception, management has established guidelines regarding its annual charge for the amortization of its seismic data library. Under these guidelines, 90% of the cost incurred in the creation of the proprietary seismic data is amortized within five years of inception for two-dimensional seismic data and within seven years of inception for the three-dimensional data, and the final 10% is amortized on a straight-line basis over an additional five years. A minimum of 30% of the cost is amortized in the first year subsequent to the acquisition of both two-dimensional and three-dimensional data. All projects are subject to accelerated amortization under certain circumstances. On a periodic basis, the carrying value of each seismic data program is reviewed with its estimated future revenue and, if appropriate, is reduced to its estimated net realizable value.

Revenue recognition

Seismic data acquisition and processing revenue is recognized using the percentage of completion method of accounting. Seismic data library revenue is recognized using the percentage of completion method of accounting for contracts where Arcis acquires the seismic data using its own geophysical crews, and the completed contract method of accounting for contracts where a third party acquires the seismic data on behalf of Arcis and its participants. Seismic data brokerage revenues are recognized when the earning process is complete.

Goodwill

Goodwill acquired on the acquisition of Sourcex is being amortized on a straight-line basis over a period of 15 years. Goodwill acquired on the acquisition of 628028 Alberta Ltd. is being amortized on a straight-line basis over a period of three years. The period of benefit is determined after considering factors such as the size of the transaction, the anticipated future operating cash flows and its strategic importance to Arcis. Arcis assesses impairment by determining whether unamortized goodwill can be recovered through undiscounted future operating cash flows of the acquired operations.

Income taxes

Arcis follows the liability method of accounting for income taxes. Under this method, future tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax liabilities and assets are measured using enacted tax rates. The effect on future tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs.

Fair value of financial instruments

Arcis' financial instruments that are included in the consolidated balance sheets are comprised of cash, accounts receivable, all current liabilities and long-term borrowings.

(a) Fair values of financial assets and liabilities

The fair values of financial instruments that are included in the consolidated balance sheets, including long-term borrowings, approximate their carrying amount due to the short-term maturity of those instruments and the floating interest rate applied to long-term borrowings.

ARCIS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2000 and December 31, 1999

(b) Credit risk

A substantial portion of Arcis' accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

Arcis manages its exposure to credit risk through ongoing credit evaluations of its customers and has provided for potential credit losses through an allowance for doubtful accounts. Management does not believe that Arcis is exposed to concentrations of credit risk that are likely to have a material adverse effect on the financial position or results of operations.

(c) Interest rate risk

At December 31, 2000, the increase or decrease in net earnings for each one percent change in interest rates on floating rate debt would not have a significant effect on net earnings.

Stock option plan

Arcis has a stock option plan. No compensation expense is recognized for these plans when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

Cash

Cash is defined as cash and term deposits with a maturity of three months or less.

3. Business Acquisitions

- (a) On July 13, 2000, Arcis purchased 100% of the outstanding shares of 628028 Alberta Ltd., a seismic data brokerage consulting company, and its wholly owned subsidiary, 733537 Alberta Ltd. The acquisition has been accounted for using the purchase method and the results of operations have been included from the closing date being July 13, 2000.

Details of the aggregate consideration given and the fair values of net assets acquired are as follows:

| | \$ |
|-------------------------------------|----------------|
| Consideration | |
| Cash | 280,825 |
| Common shares (note 14) | 291,125 |
| | <u>571,950</u> |
| Net assets acquired at fair values | |
| Capital assets | 31,181 |
| Non-cash working capital deficiency | (233,797) |
| Goodwill | 268,501 |
| | <u>65,885</u> |
| Cash position | 506,065 |
| Net assets acquired | <u>571,950</u> |

ARCIS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2000 and December 31, 1999

- (b) On November 9, 2000, Arcis purchased 50% of the outstanding shares of HeliStaker Canada Ltd. Immediately subsequent to the acquisition, Arcis disposed of 5% of the shares of HeliStaker Canada Ltd. to a director of Arcis for proceeds of \$35,000, resulting in a 45% ownership by Arcis.

The acquisition has been accounted for using the equity method.

| | \$ |
|-------------------------------|----------------|
| Balance – Beginning of period | |
| Consideration | |
| Cash | 306,444 |
| Common shares (note 14) | 93,990 |
| | <u>400,434</u> |
| Equity in losses | (11,568) |
| Balance – End of period | <u>388,866</u> |

Included in accounts payable at December 31, 2000 are amounts due to HeliStaker for work performed on seismic data acquisition programs totaling \$1,129,670. At December 31, 2000, operating expenses include \$2,208,241 for services rendered by HeliStaker.

Included in accounts receivable at December 31, 2000 is \$122,483 in shareholder advances due from HeliStaker.

4. Notes Receivable From Employees

Amounts were loaned to employees to assist with their purchase of Arcis common shares. The first series of loans were issued in June 1997, are repayable in February 2001 (40%) and June 2001 (60%) and bear interest at Revenue Canada's prescribed rate (as at December 31, 2000 – 6%; December 31, 1999 – 5%).

A second series of loans were issued in November 1999 to assist employees in the purchase of Arcis common shares and warrants. These loans are repayable in February 2001 (20%) and June 2001 (80%) with the exception of one loan of \$27,448, which matures on March 31, 2001. The loans bear interest at the Royal Bank of Canada's prime rate of interest plus 1.5%.

The loans are secured by promissory notes and the underlying securities purchased with the funds advanced. The carrying value of the loans, including interest thereon, at December 31, 2000, was \$231,421 (December 31, 1999 – \$216,628), and the estimated market value of the underlying securities was \$273,906. The notes receivable from employees are included in accounts receivable for the current year.

ARCIS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and December 31, 1999

5. Work-In-Progress

| | 2000 \$ | 1999 \$ |
|--------------------------|------------------|----------------|
| Seismic data acquisition | 2,582,600 | 821,201 |
| Processing | 86,000 | 55,000 |
| | <u>2,668,600</u> | <u>876,201</u> |

Work-in-progress for seismic data acquisition and processing represents the accumulated costs incurred on contracts with third parties based on the percentage of completion method of accounting.

6. Capital Assets

| | | | 2000 | 1999 |
|---|-------------------|-----------------------------------|-------------------------|-------------------------|
| | Cost \$ | Accumulated amortization \$ | Net book Value \$ | Net book value \$ |
| Geophysical equipment | 6,132,823 | 2,824,950 | 3,307,873 | 2,910,184 |
| Computer hardware and software | 2,708,585 | 1,421,597 | 1,286,988 | 1,335,947 |
| Vehicles | 1,475,965 | 917,910 | 558,055 | 896,407 |
| Office furniture, equipment and leasehold improvements | 1,026,649 | 297,517 | 729,132 | 765,776 |
| | <u>11,344,022</u> | <u>5,461,974</u> | <u>5,882,048</u> | <u>5,908,314</u> |

Included in capital assets at December 31, 2000 are assets under capital lease totaling \$840,364 (1999 – \$1,079,066) with accumulated depreciation of \$615,984 (1999 – \$596,459).

Included in capital assets at December 31, 2000 are leasehold improvements with a net book value of \$209,495 (December 31, 1999 – \$257,840), which were paid on behalf of Arcis through a lease inducement arrangement with the lessor of Arcis' premises. The value of the lease inducement has been deferred and is being amortized over the remaining life of the lease.

ARCIS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2000 and December 31, 1999

7. Seismic Data Library

| | 2000 | | 1999 |
|--------------------|-------------------|---------------------|-------------------|
| | Cost | Accumulated | Net book |
| | \$ | amortization | value |
| | | \$ | \$ |
| Work-in-progress | 1,028,612 | - | 1,028,612 |
| Completed projects | 23,031,141 | 11,503,006 | 11,528,135 |
| | 24,059,753 | 11,503,006 | 12,556,747 |
| | | | 3,399,366 |
| | | | 2,993,647 |
| | | | 6,393,013 |

Work-in-progress represents accumulated costs incurred on seismic data library surveys not yet completed where a third party acquires the seismic data on behalf of Arcis and the participants.

The \$15,804,712 in data library additions for the year ended December 31, 2000 (nine months ended December 31, 1999 – \$4,233,877) includes general and administrative costs of \$1,219,609 (nine months ended December 31, 1999 – \$131,040).

8. Goodwill

| | 2000 | | 1999 |
|--|------------------|---------------------|------------------|
| | Cost | Accumulated | Net book |
| | \$ | amortization | value |
| | | \$ | \$ |
| Goodwill on acquisition of 628028 Alberta Ltd. | 268,501 | 44,750 | 223,751 |
| Goodwill on Acquisition of Sourcex | 2,986,890 | 597,378 | 2,389,512 |
| | 3,255,391 | 642,128 | 2,613,263 |
| | | | 2,588,638 |
| | | | 2,588,638 |

9. Operating Credit Facility

Advances under the operating credit facility are available by way of prime based loans or bankers' acceptances, on a net basis, up to a maximum of \$10,000,000. Prime based loans are payable on demand and bear interest at the bank's prime rate plus 1%. Bankers' acceptances are payable on demand and are subject to the lender's stamping fees plus 1.5%. Advances under the facility are supported by a general security agreement over all the assets of Arcis.

ARCIS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Included in the bank indebtedness balance are the following:

| | 2000 | 1999 |
|----------------------|----------------|---------|
| | \$ | \$ |
| Bankers' acceptances | - | 995,090 |
| Line of credit | 220,090 | - |
| | 220,090 | 995,090 |

10. Capital Lease Obligations

Arcis has entered into capital lease obligations to acquire vehicles, software and other equipment with payments ending in May 2002. Interest is accruing at rates ranging from 8% to 11%.

| | 2000 | 1999 |
|---|------------------|-----------|
| | \$ | \$ |
| Capital lease obligations | 190,866 | 364,555 |
| Less: Imputed interest at varying rates | (22,537) | (54,399) |
| Present value of net minimum capital lease payments | 168,329 | 310,156 |
| Less: Current portion | (151,260) | (178,281) |
| | 17,069 | 131,875 |

The estimated two year repayment schedule is as follows:

| | \$ |
|------------------------|----------|
| 2001 | 173,477 |
| 2002 | 17,389 |
| | 190,866 |
| Less: Imputed interest | (22,537) |
| | 168,329 |

Arcis paid \$29,090 in interest during the year (1999 – \$35,379).

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11. Long-Term Debt

| | 2000 \$ | 1999 \$ |
|---|--------------------|--------------------|
| Term loan bearing interest at the lender's daily floating base rate plus 1.5%, repayable in monthly principal instalments of \$21,420 maturing September 2002, secured by certain seismic data library assets (a) | 928,400 | 1,185,440 |
| Reducing, revolving, \$1,000,000 credit facility, bearing interest at prime plus 1.5% repayable in monthly principal instalments of \$42,000 until September 2002, secured by certain geophysical equipment | 874,000 | - |
| Debenture bearing interest at 8.65% (2000 – lender's floating base rate plus 2.75%), repayable in monthly principal instalments of \$31,250 until July 2002, secured by certain geophysical equipment | 593,750 | 968,750 |
| Term loan bearing interest at 7.75% repayable in monthly principal instalments of \$36,875 until September 2001, secured by certain geophysical equipment | 331,875 | 774,375 |
| Conditional sales agreement bearing interest at 9.5%, repayable in monthly instalments of \$22,713 including interest, until April 2001 | 89,082 | 340,074 |
| Term loan bearing interest at prime plus 1.5%, repayable in monthly principal instalments of \$3,500 until March 2002, secured by a general security agreement over certain assets of mapIT Systems Ltd. | 50,500 | 130,000 |
| Conditional sales agreement bearing interest at 11%, repayable in monthly instalments of \$21,975 including interest, until October 2000 | - | 209,067 |
| Conditional sales agreement bearing interest at 10%, repayable in monthly instalments of \$14,715 including interest until September 2000 | - | 127,064 |
| | <u>2,867,607</u> | <u>3,734,770</u> |
| Less: Current portion | <u>(1,598,997)</u> | <u>(1,703,663)</u> |
| | <u>1,268,610</u> | <u>2,031,107</u> |

(a) Arcis has committed to pay the lender a royalty on sales equal to 0.0356% of annual gross sales from March 1999 until September 2002.

The estimated two year principal repayment schedule is as follows:

| | \$ |
|------|------------------|
| 2001 | 1,598,997 |
| 2002 | 1,268,610 |
| | <u>2,867,607</u> |

During the year Arcis paid interest of \$332,609 (1999 – \$412,676).

12. Deferred Survey Advances

Deferred survey advances represent funds advanced to Arcis by its participants in seismic data library surveys not yet completed where a third party acquires the seismic data on behalf of Arcis and the participants (see note 7). At December 31, 2000, work-in-progress relating to seismic data library surveys not yet completed was \$1,028,612 (1999 – \$3,399,366) (note 7), and deferred survey advances were \$2,158,197 (1999 – \$2,440,572), and as such, funds advanced based on contract do not reflect the progress of the project. Because of this, the working capital impact of seismic data library surveys not yet completed at December 31, 2000 and 1999 will not necessarily be equal to the working capital impact upon completion of these data library surveys. Deferred survey advances will be recognized as revenue upon completion of the seismic data library surveys.

13. Convertible Debentures

On February 27, 1998, Arcis issued 7% convertible debentures for proceeds of \$2,000,000 for a term of three years, with the debentures due February 27, 2001. The holders have the right to convert the principal amount, in whole or in part, into common shares of Arcis at a price of \$2.26 per common share in multiples of \$75,000 or \$100,000, depending on the holder, at any time prior to forced conversion or redemption. On June 20, 2000, \$1,850,000 of the outstanding debentures were converted to 819,218 common shares. Arcis has the right after February 27, 2000 to cause the remaining holders to elect to convert the principal amount, in whole or in part, into common shares of Arcis provided the shares have traded for 20 consecutive days at a weighted average price of not less than \$3.40 per share.

On June 22, 2000, Arcis issued 9% debentures for gross proceeds of \$6,575,000 consisting of \$5,000,000 Series A convertible debentures and \$1,575,000 Series B convertible debentures. The term is 5 years, with the debentures due June 23, 2005. The holders of the Series A convertible debentures have the right to extend the maturity date annually for an additional term of 1 year, to an aggregate maximum of 3 years. The holders have the right to convert the principal amount, in whole or in part, into common shares of Arcis at a price of \$2.60 per common share, prior to forced conversion or redemption.

On December 15, 2000, Arcis issued an additional \$59,000 Series B convertible debentures, which mature on June 23, 2005.

Arcis has the right after 36 months for Series A and 30 months for Series B have passed from the date of issuance of the convertible debentures to cause the holders to elect to convert the principal amount, in whole or in part, into common shares of Arcis provided the common shares have traded for 20 consecutive trading days at a weighted average price of \$3.80 per common share, and the average trading volume during such period exceeds 25,000 common shares per day.

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As the convertible debentures are considered compound financial instruments, the liability and the equity components must be presented separately, as determined at the date of issuance. Arcis has valued the equity component of these debentures using the residual value of equity component method, whereby the liability component is valued first using the current market rate for comparable instruments at the time of issuance. The difference between the proceeds of the debentures issued and the fair value of the liability is assigned to the equity component. The resulting liability and equity values for all outstanding debentures determined using this method based on an 11% interest rate are as follows:

| | \$ |
|--------------------------------------|------------------|
| Proceeds from convertible debentures | 6,784,000 |
| Less: Fair value of equity component | <u>(681,000)</u> |
| Value of liability component | <u>6,103,000</u> |

Over the term to maturity, the debt discount will be amortized, thereby increasing interest expense and the liability component, such that at maturity, the liability is reflected at its maturity value.

| | 2000 \$ | 1999 \$ |
|---|--------------------|------------------|
| Book value of liability component – Beginning of period | 1,914,099 | 1,864,340 |
| Add: Liability component of Series A and B debentures | 5,968,000 | - |
| Amortization of debt discount added to interest | 86,111 | 49,759 |
| Less: Debentures converted to equity | <u>(1,800,158)</u> | - |
| Book value of liability component – End of year | <u>6,168,052</u> | <u>1,914,099</u> |

Arcis incurred financing costs totaling \$493,198 relating to the issuance of the convertible debentures. These costs have been deferred and are being amortized over the five-year term of the debentures.

Arcis paid interest of \$375,840 (1999 – \$106,125) relating to convertible debentures.

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14. Capital Stock

Authorized

Unlimited number of voting common shares without nominal or par value.

Issued

| | 2000 | | 1999 | |
|--|-----------------------------|---------------------|-----------------------------|---------------------|
| | Number of shares | Value \$ | Number of shares | Value \$ |
| Capital stock – Beginning of period | 8,003,029 | 11,343,242 | 6,402,548 | 9,540,819 |
| Common shares | | | | |
| Purchased for cancellation under Normal Course Issuer Bid (i) | (78,700) | (124,346) | (125) | (186) |
| Issued on exercise of warrants (ii) | 24,057 | 38,616 | - | - |
| Issued on conversion of convertible debentures (note 13) | 819,218 | 1,985,158 | - | - |
| Issued on acquisition of 628028 Alberta Ltd. (note 3(a)) | 125,000 | 291,125 | - | - |
| Issued on investment in HeliStaker Ltd. (note 3(b)) | 41,667 | 93,990 | - | - |
| Elimination of deficit (note 20) | - | (5,864,919) | - | - |
| Share issuance costs | - | (60,098) | - | (213,287) |
| Future income taxes related to share issuance costs | - | 26,815 | - | 95,169 |
| Issued for cash | - | - | 1,600,606 | 1,920,727 |
| Capital stock – End of period | 8,934,271 | 7,729,583 | 8,003,029 | 11,343,242 |

- (i) On October 20, 2000, the Toronto Stock Exchange accepted a notice filed by Arcis of its intention to make a normal course issuer bid on its common shares. The notice provided that as of October 24, 2000, Arcis could, during the 12 month period ended October 23, 2001, purchase on the Toronto Stock Exchange, up to 447,500 common shares of Arcis.

At December 31, 2000, Arcis had, pursuant to this normal course issuer bid, purchased for cancellation, 169,200 common shares at a cost of \$363,512. Of this total purchase, 90,500 shares purchased at a cost of \$183,810 had not been cancelled at December 31, 2000 and are, therefore, included in treasury stock. The remaining shares were cancelled at December 31, 2000 and, of the total cost, \$124,346 reduced capital stock. The excess of the price paid over the average carrying value of the shares purchased reduced contributed surplus by \$43,228, and the remainder reduced retained earnings by \$12,127.

On September 11, 1998, the Toronto Stock Exchange accepted a notice filed by Arcis of its intention to make normal course issuer bids on its common shares. The notice provided that as of September 15, 1998, Arcis could, during the 12 month period ended September 14, 1999, purchase on the Toronto Stock Exchange, up to 750,000 common shares of Arcis.

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During the nine month period ended December 31, 1999, pursuant to this normal course issuer bid, Arcis purchased for cancellation 500 common shares at a cost of \$100. Of the total cost, \$186 reduced capital stock and \$86 was added to contributed surplus, representing discounts over the average carrying value of the common shares purchased.

- (ii) On November 8, 1999, Arcis closed a rights offering, whereby the holders of its common shares received one right for each share held. Four rights entitled the shareholder to purchase one unit, comprised of one common share and one half warrant, at a price of \$1.20 per unit. A total of 1,600,606 common shares and 3,201,211 warrants were issued for gross proceeds of \$1,920,727. Each four warrants plus \$1.60 entitle the holder to purchase an additional common share on or before November 7, 2001.

Stock options

800,000 common shares have been reserved for issuance pursuant to options granted under the Stock Option Plan. Options may be granted at the discretion of the Board of Directors and all directors, officers, employees and consultants of Arcis or any subsidiary are eligible for participation in the Plan. The options vest equally over three years commencing on the first anniversary of the date of grant and expire on the 5th anniversary of the date of grant.

| | 2000 | | 1999 | |
|-----------------------|------------------------------|--|------------------------------|--|
| | Number of options | Weighted average price \$ | Number of options | Weighted average price \$ |
| Options outstanding | | | | |
| – Beginning of period | 619,375 | 2.00 | 538,125 | 2.00 |
| Options granted | 156,250 | 2.07 | 150,000 | 2.00 |
| Options cancelled | (52,500) | 2.00 | (68,750) | 2.00 |
| Options outstanding | | | | |
| – End of period | 723,125 | 2.00 | 619,375 | 2.00 |

The outstanding options are exercisable at a weighted average price of \$2.02 and expire on various dates to October 17, 2005. At December 31, 2000, 414,167 (1999 – 248,125) options were exercisable and the weighted average remaining contractual life of the options outstanding was 2.96 years (1999 – 3.42 years).

Convertible debenture

Under terms of the convertible debenture, 2,617,910 common shares have been reserved for issuance (see note 13).

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15. Reimbursable Revenue and Reimbursable Costs

Reimbursable costs consist of acquisition costs incurred by subcontractors in the preparation of geophysical acquisition projects on behalf of Arcis' clients. Reimbursable costs are invoiced by Arcis to its clients, at cost, and are presented as reimbursable revenue in the consolidated financial statements. For December 31, 2000, operating expenses are presented net of reimbursable costs of \$21,296,335 (1999 – \$12,464,465).

16. Income Tax Expense (Recovery)

Arcis' income taxes (recovery) are determined as follows:

| | 2000 \$ | 1999 \$ |
|--|------------------|----------------|
| Combined basic Canadian Federal and Provincial income tax provision (recovery) at statutory rates (44.62%) | 2,537,550 | (1,218,296) |
| Non-deductible items | 189,239 | 98,366 |
| Recognition of prior year's losses | (1,401,539) | - |
| Loss carryforwards not recognized | - | 1,040,205 |
| Reversal of temporary differences previously recognized | - | 83,218 |
| Miscellaneous differences | 8,265 | (5,774) |
| | <u>1,333,515</u> | <u>(2,281)</u> |

Future taxes result from the effect of transactions that are recognized in different periods for financial and tax reporting purposes. The primary components of Arcis' future tax assets and liabilities are as follows:

| | 2000 \$ | 1999 \$ |
|---|----------------|------------------|
| Future tax assets: | | |
| Net operating loss carryforwards | - | 1,401,539 |
| Financing costs | 197,873 | 287,509 |
| Difference between book and tax basis of capital assets | 56,781 | - |
| Other | 30,592 | 44,868 |
| | <u>285,246</u> | <u>1,733,916</u> |
| Future tax liabilities: | | |
| Difference between book and tax basis of capital assets | - | (11,974) |
| Net future tax asset | <u>285,246</u> | <u>1,721,942</u> |
| Valuation allowance | - | 1,351,274 |
| Net future tax asset | <u>285,246</u> | <u>370,668</u> |

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A valuation allowance is established when it is more likely than not that some portion or all of the future tax assets will not be realized. The valuation allowance is then adjusted when the realization of future tax assets becomes more likely than not.

Arcis paid \$nil in income tax during the year December 31, 2000 (nine months ended December 31, 1999 – received income tax refunds of \$287,066).

17. Investment in Incorporated Joint Venture

Included in the assets and liabilities of Arcis' consolidated balance sheet are the following amounts which represent the company's 50% interest in the assets, liabilities, revenues and expenses of mapIT Systems Inc.

| | As at and for the year ended December 31, 2000 \$ | As at and for the nine months ended December 31, 1999 \$ |
|-------------|---|--|
| Assets | 240,606 | 278,688 |
| Liabilities | 259,863 | 355,136 |
| Revenues | 224,415 | 156,740 |
| Expenses | 168,970 | 151,079 |

18. Commitments

Arcis and its subsidiaries have entered into lease agreements for certain geophysical equipment, computer hardware, vehicles, office furniture and premises expiring at various times from June 24, 2001 to April 30, 2005. The future minimum lease payments are:

| | \$ |
|------------|------------------|
| 2001 | 887,602 |
| 2002 | 786,498 |
| 2003 | 535,665 |
| 2004 | 339,826 |
| Thereafter | 107,032 |
| | <u>2,656,623</u> |

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On October 1, 1999, Arcis entered into a lease agreement for the rental of certain geophysical equipment, which expired on September 30, 2000, with one year optional renewal period. The rental payments under the agreement were based on usage of the equipment with a required minimum payment of \$1,428,000 in each of the initial year and optional year, if applicable. At December 31, 1999, the Corporation's remaining commitment was \$807,022. Arcis had the option to purchase the equipment at the end of the initial or the optional year, with 80% of rental payments credited against the purchase price in the initial year, and 75% of rental payments credited against the purchase price in the optional year, if applicable. At the end of each of the initial year and optional year, if applicable, Arcis could have purchased or returned some or all of the categories of the geophysical equipment without further commitment. Arcis exercised this option at September 30, 2000. The equipment purchased included 1,872 channels of ARAM MKI geophysical acquisition equipment, 5 Mertz vibroseis units, and other associated equipment. The total purchase price was \$860,000, which was financed through a \$1,000,000 reducing revolving credit facility (note 11). There is no remaining commitment under this agreement at December 31, 2000.

19. Per Share Amounts

The consolidation of Arcis' issued and outstanding common shares on a one (new) share for four (old) share basis was approved by shareholders at Arcis' annual and special meeting of shareholders held on July 26, 1999. The shares began trading on a consolidated basis effective July 25, 2000. The per share amounts included in these financial statements reflect the consolidation.

The calculation of net earnings per share and cash provided from operations per share is based on the weighted average number of shares outstanding during the year December 31, 2000 of 8,506,823 (1999 – 6,705,088). The fully diluted weighted average number of shares outstanding during the same year was 10,820,246 (1999 – 8,227,178).

Cash provided by operations per share is based on cash provided by operating activities before the net change in non-cash working capital items.

20. Retained Earnings

On May 17, 2000, shareholders of Arcis approved by a special resolution a reduction in Arcis' stated capital account of \$5,864,919, which reduction in the account brought Arcis' deficit balance to zero. The reduction in share capital was completed in accordance with Section 36 of the Business Corporations Act (Alberta).

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21. Segmented Information

Arcis has four operating segments: Surveys, Geophysical Acquisition, Processing and Data Brokerage, which provide services to oil and gas companies in Western Canada. The Corporate segment provides support to the four operating segments. The Surveys segment provides industry access to new 3-D and 2-D seismic data through new survey proposals and existing proprietary seismic data library. The Geophysical Acquisition segment provides field seismic data acquisition services. The Processing segment provides data processing services. The Data Brokerage segment provides data management and brokerage services. Arcis' four operating segments are strategic business units that offer different services and are managed separately because they apply different technology and marketing strategies. The Corporate segment is managed separately because it provides specific services to, and manages certain assets of, the four operating segments.

| | As at and for the year ended December 31, 2000 | | | | | | |
|--|--|----------------------------------|------------------|-------------------------|-----------------|-------------------|-------------|
| | Surveys \$ | Geophysical Acquisition \$ | Processing \$ | Data Brokerage \$ | Corporate \$ | Elimination \$ | Total \$ |
| Gross revenue from external clients | 18,793,973 | 41,790,926 | 2,249,801 | 17,555,220 | - | - | 80,389,920 |
| Interdivisional revenue | - | 11,178,880 | 405,992 | 2,839,402 | - | (14,424,274) | - |
| Depreciation | 14,043 | 1,597,389 | 390,036 | 104,596 | 126,477 | - | 2,232,541 |
| Amortization of seismic data library | 9,640,978 | - | - | - | - | - | 9,640,978 |
| Amortization of goodwill | - | 199,126 | - | 44,750 | - | - | 243,876 |
| Amortization of deferred financing costs | - | - | - | - | 45,905 | - | 45,905 |
| Interest expense | 145,080 | 184,973 | 3,617 | 7,085 | 553,792 | - | 894,547 |
| Divisional income (loss) | 8,993,872 | 771,264 | (1,256,493) | 24,620 | (2,846,239) | - | 5,687,024 |
| Income tax expense | - | - | - | - | - | - | 1,333,515 |
| Net income | - | - | - | - | - | - | 4,353,509 |
| Capital assets expenditures | 23,902 | 1,721,115 | 538,452 | 55,596 | 79,490 | - | 2,418,555 |
| Data library expenditures | 15,804,712 | - | - | - | - | - | 15,804,712 |
| Identifiable assets | 12,599,662 | 9,061,280 | 1,043,116 | 450,266 | 23,134,356 | - | 46,288,680 |

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As at and for the nine months ended December 31, 1999

| | Surveys \$ | Geophysical Acquisition \$ | Processing \$ | Data Brokerage \$ | Corporate \$ | Elimination \$ | Total \$ |
|--|---------------|----------------------------------|------------------|-------------------------|-----------------|-------------------|-------------|
| Gross revenue from external clients | 650,667 | 23,253,865 | 1,297,930 | 7,619,743 | - | | 32,822,205 |
| Interdivisional revenue | - | 649,979 | 117,332 | - | - | (767,311) | - |
| Depreciation | 6,604 | 1,033,995 | 306,188 | 84,378 | 62,178 | | 1,493,343 |
| Amortization of seismic data library | 633,505 | - | - | - | - | | 633,505 |
| Amortization of goodwill | - | 149,344 | - | - | - | | 149,344 |
| Amortization of deferred financing costs | - | - | - | - | - | | - |
| Interest expense | - | 172,163 | - | 8,716 | 236,021 | | 416,900 |
| Divisional income (loss) | 10,558 | (818,302) | (789,393) | (70,396) | (1,062,847) | | (2,730,380) |
| Income tax recovery | | | | | | | 2,281 |
| Net loss | | | | | | | (2,728,099) |
| Capital assets expenditures | 16,336 | 1,268,660 | 147,204 | 16,528 | 452,790 | | 1,901,518 |
| Data library expenditures | 4,233,877 | - | - | - | - | | 4,233,877 |
| Identifiable assets | 6,419,814 | 6,700,438 | 872,418 | 280,426 | 17,710,216 | | 31,983,312 |

Economic dependence and concentration of credit risk

During the year ended December 31, 2000, Arcis earned revenue of \$28,789,778 and \$9,267,008 from two major customers (nine months ended December 31, 1999 – \$12,766,862 and \$3,420,579, respectively).

At December 31, 2000, \$7,645,900 and \$976,713 of Arcis' accounts receivable were due from two major customers (December 31, 1999 – \$3,524,503 and \$3,420,579, respectively).

22. Related Party Transactions

Included in prepaid expenses at December 31, 2000, is a deposit of \$15,000 (December 31, 1999 – \$15,000) paid to a company, which is wholly owned by a spouse of a director of Arcis.

Included in accounts receivable at December 31, 2000 is a loan of \$2,314 due from a former officer and director of Arcis. The loan is unsecured, on a non-interest bearing basis, with no fixed terms of repayment, and is repayable on demand.

At December 31, 2000, capital assets includes \$15,311 (December 31, 1999 – \$15,311) in assets acquired from an officer and director of Arcis as repayment of an employee loan. Subsequent to December 31, 2000, the assets were repurchased by the officer and director of Arcis for \$13,311.

See also notes 3(b) and 4 for further identified related party transactions. It is management's opinion that all related party transactions were at fair market values.

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23. Supplementary Information (unaudited)

The following presents the consolidated results of operations of the Corporation for the twelve months ended December 31, 1999:

| | |
|---------------------------------------|---------------------|
| | \$ |
| Gross revenue | 44,021,395 |
| Reimbursable revenue | <u>(14,940,980)</u> |
| | 29,080,415 |
| Expenses | |
| Operating – net of reimbursable costs | 22,188,221 |
| Administrative | 5,300,799 |
| Depreciation | 1,972,167 |
| Amortization of seismic data library | 1,061,078 |
| Interest | 610,240 |
| Amortization of goodwill | <u>199,127</u> |
| | 31,331,632 |
| Loss before the following | <u>(2,251,217)</u> |
| Impairment of assets | 2,654,543 |
| Loss before income taxes | <u>(4,905,760)</u> |
| Income taxes | 106,945 |
| Net loss | <u>(5,012,705)</u> |
| Net loss per share | |
| Basic | (0.76) |
| Fully diluted | (0.76) |